



Senate

General Assembly

File No. 116

January Session, 2001

Substitute Senate Bill No. 1068

Senate, April 3, 2001

The Committee on Labor and Public Employees reported through SEN. PRAGUE of the 19th Dist., Chairperson of the Committee on the part of the Senate, that the substitute bill ought to pass.

AN ACT ENABLING THE STATE TO PROVIDE A TAX-FREE COMMUTING INCENTIVE.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 (NEW) The Comptroller may offer to qualified state employees the
2 option to exclude from taxable wages and compensation, consistent
3 with Section 132 of the Internal Revenue Code, employee commuting
4 costs incurred through the use of (1) transportation in a commuter
5 highway vehicle if such transportation is in connection with travel
6 between the employee's residence and place of employment, (2) any
7 transit pass, or (3) qualified parking, in an amount not to exceed the
8 maximum level allowed by 26 USC 132(f)(2), as from time to time
9 amended, and regulations adopted pursuant to said section. The
10 Comptroller may contract with an administrator for the management
11 of this program. For purposes of this section, "state employees"
12 includes members of the General Assembly.

Statement of Legislative Commissioners:

Subdivisions were inserted for clarity.

LAB ***JOINT FAVORABLE SUBST.***

The following fiscal impact statement and bill analysis are prepared for the benefit of members of the General Assembly, solely for the purpose of information, summarization, and explanation, and do not represent the intent of the General Assembly or either House thereof for any purpose:

OFA Fiscal Note

State Impact: Potential Cost, Savings, Revenue Loss

Affected Agencies: Office of the State Comptroller

Municipal Impact: None

Explanation**State Impact:**

This bill results in the following fiscal impact to the state: potential increased cost to the Office of the State Comptroller (OSC); reduction to the state's FICA contribution; and a revenue loss in income taxes. The bill is not clear as to which party shall incur the cost to administer the program, the state or the participating employee. Although the number of state employees that may participate is difficult to estimate, the following explanation reflects the assumption that 1,500 - 3,000 state employees may participate in the commuting incentive program. Below represents the potential impact:

<u>Cost</u>	\$63,000 - \$144,000
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The potential cost that may be incurred is a result of contracting with an administrator for the management of this program. The administrator would be responsible for registering state employees for this program, maintaining compliance with federal requirements and submitting participant lists for payroll purposes. The cost to

administer the program is estimated between \$42 and \$48 per employee per year. Currently, there are 430 state employees who use the vanpools. In addition to the vanpool participants, state employees using mass transportation and qualified commuter lots are expected to participate in the commuting incentive. An estimated range of 1,500 to 3,000 participating state employees is used to determine a cost for this program. As a result of administering the program a cost between \$63,000 - \$144,000 is estimated annually. This represents the cost to administer the program and does not include the monthly employee benefit. HB 6668 (the Budget Bill), does not include additional funding for the administering of this program.

FICA Savings **(\$89,500 - \$179,000)**

The deduction amount permitted by the bill is treated by the Internal Revenue Service as a benefit resulting in a reduction in the state's employers social security tax (FICA). Based upon an average monthly benefit of \$65 and participation ranging from 1,500 to 3,000 state employees, the state's FICA contribution will be reduced by an amount ranging from \$89,500 to \$179,000 annually.

Revenue Loss **(\$40,000 - \$80,000)**

The bill is anticipated to result in a revenue loss to the Personal Income Tax between \$40,000 and \$80,000 beginning in FY 02. The loss results from the ability of participants to pay for qualified transit costs with pre-tax deductions from their wages. Therefore, state income taxes will be calculated based on a participant's wages less amounts deducted for transit costs.

OLR Bill Analysis

sSB 1068

***AN ACT ENABLING THE STATE TO PROVIDE A TAX-FREE
COMMUTING INCENTIVE.*****SUMMARY:**

This bill permits the comptroller to offer qualified state employees and members of the General Assembly the option of excluding certain commuting costs from their taxable wages. The comptroller's actions must be consistent with the Internal Revenue Code.

The comptroller may hire a contractor to manage the program.

EFFECTIVE DATE: October 1, 2001

COMMUTING COSTS

Commuting costs are those incurred (1) through transportation in a "commuter highway vehicle" if it is connected with travel between the employee's home and work site, (2) for a transit pass, or (3) for "qualified parking."

The Internal Revenue Code defines "commuter highway vehicle," "transit pass," and "qualified parking" (26 USC 132(f)).

A commuter highway vehicle is one that seats at least six adults (excluding the driver) and is reasonably expected to be used for transporting employees to and from work on trips with at least one-half of the seats (excluding the driver) filled for at least 80% of the vehicle's mileage for a year.

A transit pass is any pass, token, farecard, voucher, or similar item entitling a person to ride on mass transit or a commuter highway vehicle.

Qualified parking is employer-provided parking at or near an

employee's work or at a location from which the employee commutes by transit pass, commuter highway vehicle, or carpool. An employer provides parking if it pays for the parking or reimburses the employee for parking expenses or the parking is on property that the employer owns or leases.

The comptroller cannot withhold more than the Internal Revenue Code's maximum level. The current limit is \$65 per month for commuter highway vehicle and transit pass costs and \$180 per month for qualified parking costs.

BACKGROUND

Federal Law

The Internal Revenue Code excludes certain fringe benefits from gross income. Income that constitutes a "qualified transportation fringe" is excludable. A "qualified transportation fringe" is any of the following an employer provides to an employee: (1) transportation in a commuter highway vehicle that is in connection with travel between the employee's home and work, (2) any transit pass, or (3) qualified parking (26 USC 132(a)).

COMMITTEE ACTION

Labor and Public Employees Committee

Joint Favorable Substitute

Yea 11 Nay 2